

COMMISSIONER BECKER: Thank you. Murray, if you will forgive me, you'll be absolutely next. I know that you're leaving but I want to make sure I get a couple things in.

We've lived our whole life in the trade union movement on cost-benefit analysis to where we're sick to death of the cost-benefit analysis. Everything is study and restudy, and if the evidence isn't here, we need more studies. We've been through this. Workers have always suffered the effects of pollution before anybody else, because they're the ones that make the product. Now, we've gone through lifetimes of companies refusing to provide respirators or other controls that would protect life and with complete callousness. Always it was cost benefit.

My first exposure to this -- well, as a kid, I spent my life in the mills -- but I can remember a smelter. When we passed the Clean Air Act, there was a smelter down along the Mexican border that was polluting the hell out of the environment, so the company simply shut it down and moved it across the Rio Grande into Mexico. And it was very close; you could still see it.

It polluted the same areas, and they just moved it over there and just went on with complete disregard to the problem.

As a union, we did what I call a historic piece, we took a stand. We called it our children's world, and we broke with the rest of the labor movement, and we took a strong position on the environment and pollution and saving our planet. We've been very proud of the position that we've taken. This is just background; this is where I'm coming from on all of this and where most trade unionists come from.

But in a very real focused position, if you say there's very little cost differences in making a product in the United States versus making it over overseas; the cost on the environmental end of it is very, very different. We've lost virtually every coke oven in the United States. It's being produced in China now and being imported here because we don't want to produce it in the United States. We're paying a hell of an environmental price on that. If the Chinese had to meet the same environmental standards, the coke ovens would still be in the United States. There would still be some here in Pittsburgh. A lot of people are glad to see them gone.

Second, EPA enacted a very strong air pollution ordinance that restricted furniture refinishing and making in Los Angeles County because of the effect it was having on the whole community. Almost en mass the furniture community moved down to

Tijuana and the maquilas under the NAFTA provision, are still polluting San Diego and Los Angeles County, and are just running rampant.

I find it very difficult to understand, particularly when you underscore that there's very little difference in the cost, why we're having that problem in getting these countries throughout the world to put in whatever environmental controls that are necessary so that we can have a clean environment along with producing product for society in the whole world community. It just defies imagination.

MR. FARROW: There are a couple of interesting points there. I'm trying to find the question. Is there a question for me there?

COMMISSIONER BECKER: Well, no. I said I was making a statement.

MR. FARROW: Okay; sorry.

COMMISSIONER BECKER: Murray.

CHAIRMAN WEIDENBAUM: It was a great lead in.

I'm really glad Commissioner Becker spoke first, because that is a lead into my concern. As I listened especially to Mr. Seligman and Mr. Blackwelder, my initial reaction was to shake my head up and down, it sounds all sensible -- of course, I

endorse Professor Farrow, but we expect that out of a fellow economist. But then it dawned on me.

In my own experience, say, as an advisor to EPA a few years back, every time I tried to introduce economic considerations, economic impact concerns into the deliberations, the representatives from environmental organizations dumped on me; treated me as the enemy. Even though green is supposed to be a good color, I was a green eyeshade economist who dared to bring in these economic considerations in environmental matters which are too important to be limited by mere economic concerns. That is in juxtaposition to what sounds nice but for economic legislation I include WTO, NAFTA, and all that in that category.

Economic regulations, economic treaties need to take full account of environmental factors, because environmental factors are too important to be excluded. Now, that strikes me as working both sides of the street; that environmental factors are too important -- and the economic consideration when you're setting them up, and that's when you get the kind of results that Commissioner Becker talked about. On the other hand, it's only fair that you almost immobilize or certainly strongly restrain the economic legislation treaties, et cetera, by environmental concerns.

Now, that leads a reasonable citizen to say that you're not giving us a balanced presentation; you're just focusing on your special, albeit very important interests and ignoring the other important interests. Can you enlighten me? By the way, I'll add economists drink the same water, breathe the same air as real people.

MR. BLACKWELDER: Well, in the first place, I would point out that we at Friends of the Earth are very much concerned about the economics. We don't exclude that at all. That's an important consideration. That's why we have our green scissors program to cut out anti-environmental spending by the Federal Government and state governments. That's why we're looking at the tax code. The tax code now rewards pollution. It does not provide a free enterprise or level playing field in the energy area. The recent tax bill that was vetoed actually had \$5 billion in subsidies to the biggest polluting industries in the United States. So, if you were trying to formulate a new business on, say, energy efficiency, you'd be swimming against a tidal wave of subsidy.

So, I think you're setting up a straw man, because some environmentalists have said one thing rather than another. The very fact of the matter is,

of course, the overall global economy operates in a context of how much air, water, and so forth is available on the planet, and the viewpoints that we are stressing are not parochial or special interest. They have to deal with humanity's ability to survive, to have healthy lives, to have healthy families and healthy children. It's the very opposite of special economic interests pleading for subsidies. So, I don't think you can put us in this area.

And I would say, finally, that the concern about trade agreements was that those were putting in place anti-democratic institutions like the chapter 11 tribunals at NAFTA, in which a corporation can challenge health and environmental standards in private, secret three-person courts, or in the case of the World Trade Organization where people don't have the right to make input and have a fair hearing, even though the very laws that they worked on and spent a good portion of their lives to pass are being challenged by some other country. I mean, that is where we start to draw the line as to the kind of invasive quality of these trade agreements into this domain.

MR. SELIGMAN: Since you directed the question to both of us, I'll take a bite at that apple too, if it's okay.

I wasn't part of those conversations you had at the EPA, and so I don't really know the innards of the discussions. But I think that there is a difference of worlds between economists and environmentalists, and that's fairly clear. I actually have more of an economics background than it might appear. I worked for a couple years at a think tank that is heavily economics oriented, the World Resources Institute, getting indoctrinated by their perspective before I went to the Sierra Club, and I had some reeducation to do once I got there.

But, for example, I did a project on emissions trading, which is manna from heaven from an economic standpoint, but when we actually got into sort of evaluating how emissions trading programs might work, we find that there are all sorts of values that are simply not within the economic mindset. We may be trading a pollution credit upstream, let's say from the east side of the country to the west side of the country. Perhaps from an economic standpoint that doesn't matter at all, the credits are worth the same amount. But, yet the effect is that more of the pollution will be, because of the prevailing winds, blowing over more people and more forests and doing more damage. And it's not always clear to me that

economists are mindful of the real world implications of the instruments that they're often advocating.

And I think that's my experience with getting into this issue a little bit. So, I will give my colleague some credit and assume that there were questions that were being overlooked about how effective cost benefit analysis is, the kinds of things that are being left out because they can't be quantified and so on.

That said, I have to give my colleague, Scott Farrow, some credit actually for making a very nuanced case around the use of science and trade rules, which I think illustrates some of our problems with the way the World Trade Organization works. And, specifically, he referred to the need for a precautionary approach, or something like that, where there's a great deal of uncertainty and judging risk and where the potential for irreversible effects is great.

It's precisely our concern with economic institutions like the WTO that they apply economic thinking in a very meat-handed and kind of dumb way. The use of science by the World Trade Organization panels completely ignores the limitations of science. It essentially requires countries to ignore an environmental risk or food safety risk if they can't

prove that there's a risk beyond any reasonable doubt. That's not a careful nuance use of science.

So, I guess from my experience when you say why can't the economists and environmentalists be friends, I would say because in our experience when the economists have their chance to write the rules as they want them to, it's often done in a fairly sloppy way that ignores environmental reality.

CHAIRMAN WEIDENBAUM: By the way, and sort of a comment on both, when I did a report a couple of years ago identifying the slew of not only expenditures by government but also tax subsidies and regulatory restraints that had an anti-environmental effect, I want to thank Friends of the Earth for being one of the few places that wrote a letter of support. I must confess, my friends in the business community who were receiving these subsidies weren't exactly supportive of the criticism.

So, there are occasions where we are on the same wavelength. And, certainly, I think that's an opportunity for economists and environmentalists to join forces. There are an awful lot of uneconomical actions by government; therefore, we are talking about bureaucrats. There are an awful lot of uneconomical actions by government, many of which actions simultaneously have an undesirable environmental effect

and who will take some joining of forces to change the status quo in these areas.

So, I thank you all for your comments.

COMMISSIONER LEWIS: In discussing whether or not we can impose certain environmental standards on other countries to say to them, "Your goods can't come into our country if you don't follow these environmental standards that we impose on companies in America," the criticism would be made that we're then somehow impinging on their sovereignty; that we're telling them how to run their country. And I realize the answer would be, no, we're not telling them what to do; we're just telling them what to do if they want their goods to come in here.

But I want to ask you if there wasn't a reverse case on sovereignty recently, and I'd like you to explain this to me. I was told the WTO ordered the United States to eliminate its Clean Air Act regulation on gasoline cleanliness after the Venezuelan government claimed the regulation unfairly disadvantaged Venezuelan oil refiners. If that's true, then it would seem that the WTO impinged on our sovereignty by telling us that our Clean Air Act can't be enforced because of Venezuelan complaints about it. Could you edify us on this issue?

MR. SELIGMAN: Whose sovereignty gets priority here?

COMMISSIONER LEWIS: Do you know anything about the Venezuelan case?

MR. BLACKWELDER: But you're posing -- yes, I know the case.

COMMISSIONER LEWIS: Could you tell us about it?

MR. BLACKWELDER: Yes, but you're posing a false dilemma here in the sense that we're saying as a country we should be able to distinguish what we as consumers do or do not want to have. I don't want to take clothing that's made by child labor or sweatshops, and the vast majority of American people do not want to do that. It is not infringing upon another country's sovereignty to say, "No, thanks. We are not going to accept those products in here, and we're not going to accept products made by your polluting and destroying communities, because you don't obey environmental laws." That's telling them what we're not going to purchase as consumers. That's not affecting their sovereignty.

The other one is. If you have the WTO going in on an environmental law, as they did on our Clean Air Act, as they did on the --

COMMISSIONER LEWIS: Could you tell what that was?

MR. BLACKWELDER: Okay. What happened was on the Venezuelan gasoline case the refiners there came in and challenged the Clean Air regulations that had been hammered out by EPA and the refiners here in the United States, and said, "You're unfairly discriminating against us, because we didn't have the background data on which to make a gauge." And the World Trade Organization ruled in favor and said that the United States had taken this action, that EPA's regulations discriminated unfairly against Venezuelan producers. We said from an environmental standpoint it was tough enough for us to try to get any rule on the refiners, and now you're coming in and disrupting this hard worked out battle over gasoline refineries.

And EPA then was forced to go through a set of hearings and change the regulations of the Clean Air Act and allow Venezuelan --

COMMISSIONER BECKER: We actually changed them. They just weren't automatically set aside.

MR. BLACKWELDER: No, no. We either had to change them or pay a penalty.

COMMISSIONER LEWIS: And our regulations were done pursuant to statutory authority.

MR. BLACKWELDER: Pursuant to the Clean Air Act, yes.

COMMISSIONER LEWIS: Right. So, essentially, our law was invalidated, the regulations, by the WTO.

MR. BLACKWELDER: They were modified, yes.

COMMISSIONER LEWIS: Thank you.

MR. BLACKWELDER: And in material I'll submit to the Commission, there's more detail on that case.

COMMISSIONER LEWIS: Do you have a statement that you are going to submit to us?

MR. BLACKWELDER: Yes, I have several statements and materials for the Commissioners. (See Insert 1)

COMMISSIONER LEWIS: Wonderful.

MR. BLACKWELDER: Yes.

COMMISSIONER BECKER: This has happened more than once, this kind of activity by the WTO?

MR. BLACKWELDER: Yes.

COMMISSIONER BECKER: Environmentally?

MR. BLACKWELDER: Yes, it has. It happened in the case my colleague referred to. We have a shrimp turtle law saying we'll only take shrimp caught by turtle excluder devices so the gigantic sea turtles are not trapped.

COMMISSIONER LEWIS: That's a U.S. law.

MR. BLACKWELDER: That was a U.S. law, and Pakistan, Thailand, and others challenged it saying it was discriminatory, and the World Trade Organization ruled against us, and the State Department changed the way we're implementing the law in a way in which we think destroys the whole purpose of the regulation.

WTO Poses Threats to:

Our Air

Clean Gas: Venezuela successfully challenged an amendment to the US Clean Air Act that required foreign gasoline refiners to make the same improvements to gas quality as the average US refinery. Now importers can choose to improve from a dirtier starting point. This means that imported gasoline may be damaging air quality in major US cities.

Fuel efficiency: Japan is considering strengthening automobile fuel efficiency standards. The U.S. government has told Japan this could violate WTO rules because the requirements would fall mainly on medium sized cars, which is the class of most US car exports to Japan.

Our Water

Water contamination: California recently decided to phase out use of a gasoline additive that contaminates ground water. A Canadian corporation used special investment rules in the North American Free Trade Agreement to argue that this phase out is a "regulatory taking," and that the US must pay \$ 1 billion in compensation. A possible WTO investment agreement could extend these rules, which would force governments to "pay the polluter" worldwide.

Water exports: Americans and Canadians are both concerned that trade in bulk fresh water- on refitted oil tankers- could transform water from the Great Lakes into just another commodity. Under trade rules it may be difficult to prevent international trade in water.

Our Food

Food Safety: Under WTO rules, food safety regulations (such as the allowable level of pesticide residue on imported fruits) must be justified by detailed risk assessment and scientific evidence. This contradicts the *precautionary principle*, the environmental principle that states that in cases of scientific uncertainty, governments should err on the side of caution.

Genetically engineered food: There is growing evidence that genetically modified food could threaten wildlife and public health. Some governments have strict safeguards requiring testing and labeling of GE foods. The U.S. government has threatened to challenge these safeguards at the WTO.

WTO Poses Threats to:

Our Forests

Excessive logging: The WTO may exacerbate global deforestation. There are plans to negotiate a free trade agreement in forest products. The timber industry admits this would increase global consumption of wood products. More trees will be cut to satisfy this new demand. The agreement could later extend to “non-tariff barriers” including such forest protection laws as certification schemes and raw log export bans.

Invasive species: Invasive insect and plant species threaten native trees and other ecosystems. Trade is the main route by which these invaders spread throughout the world. U.S. controls to prevent the introduction of invasive species can be challenged under the same WTO rules controlling food safety laws.

Consumer Choice

Eco-labels: Eco-labels provide consumers with information that a product was made with minimal impacts on the environment. Some governments have argued that eco-label programs may violate WTO rules on product standards.

Government procurement: Local, state and national governments can also be responsible consumers by favoring green products in procurement programs. WTO rules on procurement could limit governments’ ability to consider non-market factors (human rights, environmental impacts, etc.) when buying goods and services.

Species Protection

Endangered sea turtles: The number one human threat to sea turtles is drowning in shrimp nets. The US has a law blocking the imports of shrimp from countries whose shrimp fleets kill turtles. Under WTO rules, it is usually illegal to distinguish between similar products based on the way they were produced. In the eyes of the WTO, shrimp caught using methods that kill sea turtles are the same as shrimp caught using safe methods.

Dolphins: One of the earliest conflicts between trade rules and environmental protection involved a U.S. ban on imports of tuna that had been caught in a way that killed dolphins. These disputes happened before the WTO was established to enforce trade law. But pressure from our trading partners has caused the US to weaken the ban and even propose weakening our “dolphin safe” labels than many consumers recognize from cans of tuna fish.

Leg-hold traps: Animal advocates consider leg-hold traps to be a particularly cruel form of trapping. Europe had announced that it would ban imports of fur from animals caught in these traps, but backed down after the US, Canada, and Russia complained that a ban violated free trade. Under the WTO, fur is fur, regardless of how it was caught.



Food Safety and The WTO

All food safety rules applied to imported food – such as pesticide residues – fall under the jurisdiction of the World Trade Organization (WTO). The WTO promotes trade, so it is no surprise that health and environmental standards at the border can be challenged as illegal barriers to trade.

Children and Pesticides:

WTO rules give preference to international food safety standards. These standards are often “least common denominators.” For example, international pesticide standards do not take into account the greater vulnerability of children.

Countries maintaining stronger standards must justify the standard(s) with risk assessments and detailed evidence. This is contrary to the *precautionary principle*, the internationally recognized environmental principle that in cases of scientific uncertainty, governments should err on the side of caution. Equally important, democratic governments should not have to jump through free trade hoops in order to protect public health!

Genetically Engineered Organisms:

Genetic engineering (GE) is a new technology that allows scientists to manipulate genes in order to alter the characteristics of an organism. Genetic engineering is rapidly changing our food. GE crops currently grow on more than fifty million acres of farmland in the United States; it is estimated that up to seventy percent of processed foods lining our supermarket shelves contain genetically engineered ingredients. This surge of altered food raises environmental, health, and economic concerns.

Environmental Impacts: Genetic engineering can change the subtle interactions between crops and wild species. For example, studies at Cornell and Iowa State University recently found that

corn engineered to contain the natural toxin *bT* is fatal to monarch butterflies.

Health Impacts: The human health effects of GE foods have not been sufficiently tested. The American public is in essence serving as guinea pigs in a real world experiment.

Economic Impacts: Multinational companies are trying to control all stages of food production, from the farmer’s field to your plate. If they are successful, farmers will become even more dependent on big corporations. Instead of being self-sufficient. These companies are also against labeling GE food. In other parts of the world, however, consumers are gaining the right to know what ingredients are contained in the food products they buy.

The WTO and GE Foods:

The Clinton Administration has threatened to challenge European Union regulation of GE foods as an illegal trade barrier. The potential “GE food fight” at the WTO shows how its rules can be used to challenge legitimate consumer and environmental protections. The European public has decided that GE foods should be better tested before entering the market, and labeled. Under the WTO, however, unelected trade panels can declare that health or environmental safeguards are illegal barriers to trade, and should be removed.

Evidence of Growing Concern over GE Foods:

- Large grocery chains in the UK are removing GE ingredients from their store brands.
- Mexico’s leading corn flour producer will no longer purchase GE corn.
- Japan, South Korea, Australia, and New Zealand all now require GE labeling.



Forests and the WTO

The World Trade Organization meets in Seattle this December. At the top of the agenda is an agreement that will lead to complete free trade in forest products. Forest protection groups are concerned that this agreement will worsen deforestation around the world.

Only one-fifth of the world's original forests remain in large, relatively undisturbed areas. These forests are storehouses of biological diversity.

The island of New Guinea, for example-one of the last large tracts of frontier forest-is so biologically rich that nearly a fourth of its vertebrates are found nowhere else. The leading threat to New Guinea's forests and others like them is logging-in fact, logging endangers 72 percent of the world's frontier forests.

The WTO's Forest Products Agreement will eliminate developed country tariffs on wood products by 2000, and developing country tariffs by 2003. Eliminating these tariffs will make it cheaper and easier to buy and sell wood products. This will not only encourage consumption of wood products around the world, but could eventually result in increased deforestation in some of the world's most valuable ecosystems. The timber industry has admitted that consumption of wood will increase as a result of the agreement.

No one is sure what and how severe an effect this increase in consumption will have on deforestation. It is disturbing that the WTO and its member governments would push forward with an agreement when the environmental impacts haven't been adequately assessed, and conservation values are not included.

What's worse, the WTO Forest Products Agreement could be expanded to eliminate "non-tariff measures" (NTMs) NTMs are measures, besides tariffs, that could restrict free trade of goods. (See Box below for examples). Including NTMs in the WTO Forest Products Agreement opens the door to challenges to a number of federal, state and local laws intended to protect forests. So not only could the Forest Products Agreement harm forests in critical ecosystems around the world, it could threaten America's remaining forests as well.

Forest protection laws that could be challenged at the WTO:

- laws enacted by 48 states requiring the purchase of recycled paper products;
- laws banning the export of unprocessed logs from federal lands in order to protect domestic forests and workers;
- laws establishing recycled content requirements for the federal government; and
- state eco-labeling and certification laws limiting the purchase of wood from unsustainably managed tropical forests.



Finance and the WTO

What do you think about when you hear the words "global economy?" Probably trade with foreign countries, and international business. International trade and foreign investment are the two driving forces behind economic globalization, accounting for trillions of dollars a year and impacting everything from the fate of the world's forests to our food safety standards.

Foreign or international investment is the movement of money across national borders to acquire assets: an investor in one country buys or establishes an investment in another country.

Currently, there are no global rules on investment. A number of governments have proposed negotiating a WTO investment agreement to limit the ways that governments can regulate multinational corporations. A new investment agreement would increase the authority of the WTO; give new powers to corporations; and is opposed by national environmental groups as a threat to our ability to protect the environment.

Trade rules affect the regulation and exchange of products. A new investment agreement would expand the oversight of the WTO to how companies operate and have an even more significant impact on our health, safety, and environmental laws. After all, regulation of corporate operations, such as air and water controls on factories, is the heart of environmental protection.

A WTO investment agreement:

- Could require the U.S. and other governments to "pay the polluter" by allowing investors to sue for money in international arbitration courts as compensation for expropriations or government actions that have the effect of expropriations. (See chart below for examples of this international form of regulatory takings.)
- Would NOT place any obligations on corporations to operate responsibly towards the environment or communities.

Corporate lawsuits that have already happened under **NAFTA**, which has liberalized investment rules:

Company	Target	Damages sought
Ethyl	Canadian restriction on toxic fuel additive MMT	\$250 million
Metalclad	Mexican state ecological zone blocking waste facility	\$90 million
SD Myers	Temporary Canadian ban on exports of PCBs	\$20 million
Loewen	Civil justice system of State of Mississippi	\$725 million
Sunbelt	Canadian restrictions on water exports	\$220 million
Pope & Talbot	Canada-US agreement on lumber trade	\$507 million
Mechanex	California state phase out of gas additive MTEE	\$980 million

Tell the Clinton Administration to oppose investment negotiations at the WTO.

COMMISSIONER BECKER: Wasn't there something similar involving the United States and Canada?

MR. BLACKWELDER: In the case of Canada, there was a chapter 11 challenge under NAFTA in which the Ethyl Corporation in Virginia challenged the Canadian ban on a manganese additive to gasoline and sued the government of Canada for \$251 million. A three-person tribunal was appointed -- one person from Ethyl, one person from Canada, and a third. And the agreement was reached, Canada's law and regulation was voided, and Ethyl was compensated 20 million Canadian dollars -- not 251 but 20 million.

And, so that was an example of one of the seven challenges under chapter 11, and six of the seven are environmentally related as that one was. And that was a serious public health one, because the concerns were about the manganese additive affecting children's health.

COMMISSIONER BECKER: In your opinion, based on that, if we enacted any environmental laws that would affect production of some product from Mexico or from Canada, and required them to change a process or do something additional, would we be at risk?

MR. BLACKWELDER: Yes, you could have it challenged. You might want to talk -- let's give you an example of the California one -- do you want to do that?

MR. SELIGMAN: Well, I think the case that Brent is talking about deals with foreign investment inward into the United States or our foreign investors going abroad. Under the NAFTA framework, an investor whose property values are unpared can sue for a regulatory taking essentially and seek compensation. The language of NAFTA is extremely broad in this respect, and really the sky is the limit.

A Canadian company recently returned the favor by filing a \$1 billion complaint over California's ban of a hazardous gasoline additive that's getting into the groundwater. So, as companies explore this legal avenue, we see that it's actually quite scary without being hysterical that environmental progress can grind to a halt.

And, perhaps ever more troubling, the European Union wants to inject these same rules into the World Trade Organization so that no longer will they apply just in the NAFTA context but globally. And we're concerned that the Clinton Administration will go along with this in exchange for things it wants on agriculture or something else.

So, I actually would like to go back to Mr. Weidenbaum's question. You know, when we're talking about blending economic and environmental considerations and policy-making, the fact is that the ability of industry to design rules of their liking far exceeds the ability of us to do it. So, we have a very asymmetrical power situation here in which we've got a WTO with enormous potential power to impose these economic-type criteria that, as in this case, create a tremendous chilling effect on environmental progress.

MR. PAPADIMITRIOU: I wondered if I could use that blending of the environmental and economic criteria and ask Professor Farrow to elaborate, perhaps, on your two conclusions that environmental issues can justify government intervention up to a point, and I wanted to know what that point may be, if you wouldn't mind?

And, secondly, that you are careful to put a caveat in terms of within the design of environmental regulations so as not to become extremely financially burdensome. What would you have in mind on that?

MR. FARROW: These are points that to some extent echo comments earlier. The "up to a point" is the notion of comparing costs and benefits, and if you --

MR. PAPADIMITRIOU: I thought that we were being told not to always make decisions on the basis of the costs and benefits?

MR. FARROW: Even the precautionary principle, as interpreted by economists -- even the precautionary principle still compares costs and benefits, but it says that the benefits of taking a risky action must significantly exceed the costs before you incur the risk of a bad outcome. So, it's sort of a modified benefit cost criteria.

MR. PAPADIMITRIOU: We were told earlier that if we were to follow the neoclassical tradition, that won't give us a good optimum result. So, how would you define that? I mean, I'm an economist and so he is. We happen to be from a different side, but on the other hand we're still economists. So, how would you determine what would be the best solution?

MR. FARROW: It's tricky since I wasn't a part of the earlier conversation, but what I'm interpreting as an economic approach to the precautionary principle is essentially applying the real options approach that says when some outcomes are uncertain and there are irreversible costs, there are still times where you want to take the risk of a bad outcome. But the benefits must be very high in order to do so.

CHAIRMAN WEIDENBAUM: In a sense -- and let me see if I can be helpful; maybe not -- benefit cost analysis is just the shorthand for saying you ought to look at the pluses and the minuses, the advantages and the disadvantages before you make a decision. Just don't just look at the folks who are pushing, say, for more regulation or for the folks who are opposed viscerally to new as well as old regulations. Weigh the various considerations in the balance.

MR. PAPADIMITRIOU: But you can't quantify these all the time.

MR. BLACKWELDER: No, but that's --

CHAIRMAN WEIDENBAUM: That's right. That's correct.

MR. BLACKWELDER: One of the perspectives we have, we see many of the debates over pollution as debates of pitting one economic interest against another in which environmentalists will prefer the lesser of the polluting economic interests.

Another is that the tax code is a powerful instrument to avoid a lot of regulations, but yet our tax code rewards pollution and penalizes recycling. It's the very reverse of what you might be thinking of as wise policy.

The other thing is we're not averse to benefit cost analysis. You want to look, as you say,

at the pluses and minuses, but they're larger than just the immediate pocketbook ones, because we want to bring in a larger social democratic context, pluses and minuses socially. And some of the deep concerns are not necessarily captured in terms of pocketbook. I mean, what is your health worth to you? That's the kind of thing that gets to the heart of preferences. Or what is an intact community worth?

So, we sometimes just get too narrowly focused, and I think the role -- one role I see environmental organizations playing is asking us to look at the biggest context possible, a broad interconnectedness of causes and actions and a longer time span.

MR. FARROW: You're also asking a second question, if I might get back to that, which was what did I mean with the phrase, "reduce the financial burden of compliance?" And this is the point of sometimes there being alternative designs to achieve similar ends. Dan brought up the emissions trading, and it sounds like we might have differences of opinion on that. My sense is that there is a point of commonality between people who talk about international competitiveness and about environmental regulations. The point of commonality is that if one can design regulations that encourage innovation and reduce the

costs of achieving an environmental objective, then that's desirable both environmentally and economically.

MR. PAPADIMITRIOU: Thank you.

COMMISSIONER BECKER: Any other questions? If not, I want to thank the panel.

(Whereupon, the foregoing matter went off the record at 3:42 p.m. and went back on the record at 3:43 p.m.)

COMMISSIONER BECKER: We have five individuals that signed up to make statements. We'll start within a few minutes. We have a mic over here against the wall. Make sure that we have your name. We're going to recognize you in the order that you signed up to speak.

(Whereupon, the foregoing matter went off the record at 3:43 p.m. and went back on the record at 3:50 p.m.)

COMMISSIONER BECKER: Jack, we're going to be ready to go as soon as we get one more Commissioner in here. We have not done this phase of the proceedings before. Let me explain to you. We decided to have an open mic. Since we were putting it out in the field and we were going to be attracting a population at large, and in this particular case, labor folks that had something to say on this, we want to listen to them. They didn't have a forum to speak in

other ways, so we just thought we would expand and do this.

This is an experiment here in Pittsburgh. This is the first one. I don't know whether this is going to happen in the other panel hearings throughout the United States, but at least we will have set a pattern here that hopefully they will adhere to.

The rule is going to be you make your statement. You may or may not get questions. The idea is for you to be able to put your statement on the record that will go into our deliberations and the formulating of a report that's going to go to Congress on the deficit.

We're hoping that we have an agreed upon statement or recommendation to Congress on the deficit, but we're not all that sure. You've heard us up here.

I mean, we banter around ourselves. If you sit with us at lunch, it gets pretty exciting. We battle more there than we do in here. Everybody here has an opinion, and they don't mind expressing it, particularly amongst ourselves.

So, having said this, Jack Shea is the President of the Allegheny County Central Labor Council that represents trade unionists in Allegheny County.